October 28, 2021

Steel Infra Solutions Private Limited: Ratings upgraded to [ICRA]BBB(Stable)/[ICRA]A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Limits (Term Loans)	10.00	10.00	[ICRA]BBB(Stable); upgraded from [ICRA]BBB-(Stable)
Long-term Fund-based Limits (Cash Credit)	10.00	10.00	[ICRA]BBB(Stable); upgraded from [ICRA]BBB-(Stable)
Long-term/Short-term Non-fund Based Limits	95.00	95.00	[ICRA]BBB(Stable)/[ICRA]A3+; upgraded from [ICRA]BBB-(Stable)/[ICRA]A3
Total Bank Facilities	**115.00**	**115.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade factors in the better-than-expected improvement in Steel Infra Solutions Private Limited's (SISCOL or the company) profitability and coverage metrics in FY2021 and an expectation that the improvement in credit metrics would sustain over the medium term. While the turnover declined in FY2021 due to the pandemic-led disruptions and increased proportion of contracts without material component, the company's profitability as well as coverage indicators improved (DSCR improved to 1.9x in FY2021 from 1.8x in the previous year). ICRA expects the company's capitalisation and coverage metrics to improve gradually over the medium term on account of an increase in turnover and sustained healthy profitability.

In a highly competitive and fragmented industry, the company has been able to secure repeat business from large and renowned clients. It has maintained a healthy order book across sectors and geographies, providing it with revenue visibility for 12-15 months, despite a limited operational span. This has been supported by the rich experience and established network of its promoters and a senior management team in the steel and construction sectors.

The company's operational profile also benefits from its proximity to the source of key raw material steel, focus on differentiating itself by investing in technology to track resources and orders and efforts to provide end-to-end infrastructural solutions to clients. The ratings, however, remain constrained due to the working capital-intensive nature of operations and the vulnerability to the volatility in raw material prices, given the lag between order booking and execution, though the risk is partially mitigated by the price escalation clause in most orders. Further, the ratings remain constrained by the susceptibility of demand prospects/orders and/or execution to any slowdown in construction and infrastructure-related projects.

While upgrading the ratings, ICRA has taken a note of the disruptions caused by the second wave of the pandemic, which affected the company's sales and working capital cycle during H1 FY2022 and reduced the liquidity cushion in some months. It is noted that the impact was temporary. Besides expectations of a healthy growth in scale in FY2022, ICRA expects the company's working capital cycle to get corrected. Further, the recent enhancement in working capital limits is expected to support the company's liquidity profile.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company would be able to replenish and execute its order book in a timely manner, achieving its targeted growth, while maintaining profitability and managing its working capital cycle efficiently. This would help the company maintain comfortable coverage metrics and an adequate liquidity position.

Key rating drivers and their description

Credit strengths

Demonstrated execution capabilities, corroborated by healthy ramp-up in operations and repeat business from reputed clients – Since it began operations in FY2019, SISCOL has achieved a healthy ramp-up in operations, corroborated by an improvement in capacity utilisation from ~54% in FY2019 to ~86% in FY2020 and further to 90% in FY2021 (adjusted for six weeks of disrupted operations), despite the enhanced capacities. The company has completed orders for large and renowned clients, such as L&T, Shapoorji Pallonji, Tata Projects, NCC Limited and India International Convention Centre (IICC), despite a limited operational span, and has also been getting repeat orders from its customers. This reflects favourably on its execution capabilities and delivery potential.

Healthy order book provides revenue visibility; order book fairly diversified– The promoters' extensive experience and established network in the steel and construction sectors and the company's effective execution capabilities have helped SISCOL build a sizeable order book and replenish the same with repeat orders from reputed customers (Order book/ operating Income ratio of ~1.74 times for FY2021). Although the order book for the current fiscal is skewed towards the airport construction segment owing to one large order, it comprises orders across segments like industrial, construction, roads and railways/infrastructure, reducing segmental concentration risks.

Experienced promoters and senior management team – SISCOL was formed by three professionals, each with more than three decades of work experience in the steel/structural steel, construction and project management sectors in domestic as well as international markets. Having operated in the industry for a long time, the promoters have established a strong network with suppliers and customers, helping the company to gradually scale up its operations and build a reasonable order book. Further, SISCOL has appointed several experienced professionals in key managerial positions across divisions.

Location benefits, with proximity to source of key raw material, viz. steel - SISCOL's fabrication units are located in Bhilai (Chhattisgarh), in proximity to the source of its key raw material, steel. Proximity to the raw material source enables the company to maintain a low inventory as well as reduce transportation costs, given the bulky nature of its products. Going forward, the company proposes to set up additional fabrication units in proximity to its key target markets in the northern and western regions of the country.

Credit challenges

Working capital intensive nature of operations – The fabrication business is characterised by high working capital requirements for raw material storage and processing, along with a long receivable cycle. Moreover, given the nature of the work involved, any delays in the end-projects can stretch the receivable turnover cycle. SISCOL's working capital cycle is supported by LC-backed raw material purchases and its ability to secure LC-backed orders in some cases. This results in a faster conversion of the receivables, given its access to LC-backed bill discounting facilities. As a result, SISCOL's working capital intensity, reflected by net working capital (NWC)/operating income (OI), stood low at -1-1% in the past three fiscal years, resulting in limited reliance on fund-based borrowings. While the working capital intensity has increased in the current fiscal owing to disruptions caused by the pandemic, ICRA expects this to normalise. Further, reliance on non-fund based limits is high owing to the requirement of bank guarantees (BGs) at various stages of project execution, as well as use of LCs for raw material purchases. Owing to its high reliance on creditors, SISCOL's financial leverage, reflected in the total outside liabilities (TOL)/tangible net worth (TNW) ratio, stood high at 2.57 times as on March 31, 2021. It is pertinent to note here that a part of the promoters' contribution came in the form of interest-bearing unsecured loans from the promoters, which are considered a part of debt.

Intense competition in steel fabrication business – The steel fabrication industry is highly fragmented and comprises numerous unorganised players because of the marginal capital investment requirements and low technical complexity.

Further, there are organised domestic players as well as international suppliers, who work in joint venture with domestic companies or as subcontractors for large companies, posing intense competition. ICRA notes that SISCOL differentiates itself from the unorganised segment by investing in technology to track resources and orders and improving yields, aiming to provide end-to-end infrastructural solutions and value-added services (such as structural designing inputs, and live tracking of orders) to the clients. The company's ability to do so in a consistent manner, however, remains to be seen.

Susceptibility of demand/order inflow to slowdown in infrastructure-related projects - The revenue flow of SISCOL depends on capital investments across key user industries and accordingly, any slowdown in the end-user sectors may affect the revenue growth of the company. A diversified order book, however, is expected to protect it against the adverse developments or slowdown in a particular sector.

Exposure to raw material price fluctuation risk - The main raw materials for steel fabrication are hot-rolled (HR) plates and a few other structural items (e.g., angles, channels, beam, joists, rods, etc). While most contracts have a built-in price variation clause, some are under a fixed-price mechanism. The company's ability to maintain its contribution margins in times of volatile/increasing raw material prices, as seen over the past one year, and amid intense competition would be crucial for its profitability and, hence, would be a key rating sensitivity.

Liquidity position: Adequate

SISCOL's liquidity position is adequate, corroborated by an average cushion of Rs. 10 crore in its fund-based working capital limits in the six-month period ended September 2021, and ~Rs. 19 crore as on September 30, 2021, against annual repayments of Rs. 3.75 crore. It is noted that the disruptions caused by the second wave of the pandemic and high raw material prices have increased the working capital requirements during the current fiscal, with the liquidity cushion narrowing in some of the months. However, the recent enhancement in sanctioned limits, together with equity infused by the promoters and the working capital cycle reverting to normalcy, are expected to keep the company's liquidity position adequate.

Rating sensitivities

Positive factors – ICRA could upgrade SISCOL's ratings if the company achieves a healthy growth in its scale of operations, while maintaining profitability as well as efficiently managing its working capital cycle, resulting in an improvement in its financial profile.

Negative factors – The ratings may witness downward pressure if a material decline in revenues and/or profitability, higher-than-estimated capex or a sustained stretch in the working capital cycle adversely affect the company's liquidity profile and financial metrics.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

About the company

Incorporated in October 2017 by a group of experienced professionals from the Indian steel and construction sectors, Steel Infra Solutions Private Limited (SISCOL) is involved in the fabrication of heavy steel structurals. It has an installed capacity of ~36,000 MTPA (including ~3,000 MTPA of outsourced capacity). While the promoter group holds ~25% stake in the entity, ~75% is held by associates and investors (such as venture capital funds).

The company's product profile currently includes web girders, composite girders for bridges, and structures for power plant, refinery, boilers, buildings, etc. The company aims to provide end-to-end infrastructural solutions in the heavy structural steel segment, including designing, fabrication, logistics, installation and complete project management.

Key financial indicators (audited)

	FY2020	FY2021
Operating Income (Rs. crore)	208.10	197.10
PAT (Rs. crore)	5.22	8.1
OPBDIT/OI (%)	9.1%	11.4%
RoCE (%)	27.72%	27.8%
Total Outside Liabilities/Tangible Net Worth (times)	3.04	2.57
Total Debt/OPBDIT (times)	1.55	1.12
Interest Coverage (times)	2.07	3.18

Source: SISCOL's Annual Report

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding as on March 31, 2021	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Oct 28, 2021	Aug 4, 2020	Jun 5, 2019	No rating action
1	Fund-based Limits (Term Loans)	Long Term	10.0	9.2	[ICRA]BBB(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
2	Fund-based Limits (Cash Credit)	Long Term	10.0	--	[ICRA]BBB(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
3	Long-term/ Short-term Non-fund Based Limits	Short Term	95.0	--	[ICRA]BBB(Stable) /[ICRA]A3+	[ICRA]BBB-(Stable) /[ICRA]A3	[ICRA]BBB-(Stable) /[ICRA]A3	[ICRA]BBB-(Stable) /[ICRA]A3

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund-based bank facilities	Simple
Short-term non-fund-based bank facilities	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Feb 2019	-	FY2023	10.00	[ICRA]BBB(Stable)
NA	Cash Credit	Feb 2019	-	-	10.00	[ICRA]BBB(Stable)
NA	LC/BG	Feb 2019	-	-	95.00	[ICRA]BBB(Stable) /[ICRA]A3+

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody’s Investors Service is ICRA’s largest shareholder.

For more information, visit www.icra.in

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